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ABSTRACT

The use of performance funding, which provides institutions with income for educational results, was tested in Tennessee. Traditionally, the budget has been separated from performance evaluation, and state formulas have evolved from the need for funding to be objective, comparable, and predictable. The Performance Funding Project in Tennessee, which was started in 1974 by the Tennessee Higher Education Commission, was designed to accomplish the following: to sharpen institutional mission, to complement the enrollment-based formula, to objectively measure educational outcomes, to measure the educational "value added" by each institution, and to promote institutional excellence without competition. After establishing pilot projects and developing assessment measures, the Tennessee Commission established the performance concept within the state's budget formulas. To provide a profile for funding, an Instructional Evaluation Schedule was developed based on the following variables: program accreditation; program field evaluation, institution-wide education outcomes (general education outcomes, placements in vocational fields); instructional improvement based on referent group surveys (students, alumni, community leaders); and planning for instructional program improvement. (SW)

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PERFORMANCE FUNDING IN HIGHER EDUCATION: PANACEA OR PERIL?

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Traditionally, funding for instruction in higher education has relied on certain measures: student credit units, contact hours, faculty workload, or degrees conferred. Partly because of academic convention and partly because the alternatives seemed so subjective, funding formulas in higher education have usually been based on how much is done (credits and degrees), not how well it is done (changes in knowledge, enhanced lives, career development). Nevertheless, the philosophical justification for performance funding is persuasive in that institutions should receive some income for educational results, not simply for activities.

To say that state governments have avoided performance funding is not to suggest that they have been complacent about the quality of instruction. Several have established generous funds for instructional improvement such as grants for innovative projects or rewards for incorporating new ideas into the regular curriculum. Many institutions have received support for special evaluations and for reforms recommended by accrediting associations. Indeed, the 1970s overflowed with activities to define and organize educational outcomes, the most ambitious being the Structure for the Outcomes of Postsecondary Education published by the National Center for Higher Education Management Systems (NCHEMS).[1]

Given this emphasis on outcomes, why has the tradition of separating the budget from performance evaluation had such potency? Most often, state formulas evolved from the need for funding to be objective, comparable, and predictable--characteristics ill-suited to the vagueries of instructional performance. Beyond that, poor educational results should not necessarily provoke fiscal punishment; an inferior program in some instances needs additional funds to strengthen its efforts.

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In addition, the practical problems of performance funding are imposing. People disagree on standards of evaluation. Since effectiveness requires objectives against which performance is measured, the objectives must relate to institutional missions and to their clientele. Further, narrow definitions of performance may result in standardized measures which deaden the enterprise and lead to "teaching for the test." Finally, objective performance measures undoubtedly discount the numerous activities in higher education which, though not quantifiable, siguificantly enhance the quality of life.[2] Performance funding is a difficult business.

So, most states have separated funding and quality assessment. Typically, states have provided funds while the institutions themselves, through administrative rigor and faculty review, have been primarily responsible for maintaining performance. When this arrangement has broken down, state officials have usually vented their frustration by cutting budgets, rearranging governance, or funding new institutions--not by providing incentives in the formulas themselves.

Despite these traditions, the idea of performance funding has remained hauntingly attractive, especially to educators sensitive to the political demand for accountability. The following pages describe an experiment conducted in Tennessee--perhaps the most significant one in the nation--to test the feasibility of allocating some portion of state funds on a "performance" or "outcomes" basis. We can learn something from this experiment.

Performance Funding in Tennessee

Beginning in 1974, the Tennessee Higher Education Commission launched a $500,000 pilot effort, supported entirely by non-state funds, called the Performance Funding Project. The project started with two assumptions:

- funding and educational performance should be linked; and
- successful performance should not be judged solely by growth in the number of students.[3]

Although these assumptions are shared widely among educators around the nation, the technical difficulties of implementing a formula system based on performance measures had consigned them to the realm of impractical idealism.

Phase One: The Pilot Projects

The staff of the Tennessee Commission separated their planning into two phases. The first phase consisted of establishing the pilot projects and developing assessment measures which might serve later within the general funding formula. Initial discussions were intentionally wide ranging, favoring expansive ideas rather than closure. According to the Commission staff, there were those "who expected that the effort might yield a major alternative to enrollment-driven funding. Others may have expected the project to provide justification for more money to higher education or a means to soften the potential loss of funding support if enrollments were to decline."[4]

Gradually, the parties narrowed their discussions to measures that would complement, not replace, allocation based on enrollments. Since political support was essential if the performance measures were ever to be converted into dollars for the institutions, they had to be understandable and acceptable to state officials. On the one hand, legislators were particularly concerned that institutions not be in competition with each other. They favored a "value-added" criterion where performance would be evaluated in relation to the institution's own mission and its particular clientele.

On the other hand, the institutions were concerned that their autonomy be protected even as their accountability was, to some degree, increased. They feared that the data could be misinterpreted by state officials, and that funds could be diverted from important purposes toward charades of high-powered evaluation. One widespread opinion was that the campuses were not receiving sufficient funds under the current formulas, and that enhancing these allocations should have first priority. The staff of the Tennessee Commission was particularly skilled in balancing the conflicting interests.

In 1975, nineteen of Tennessee's twenty-one public institutions submitted proposals for the pilot projects. After evaluation, only eleven were selected to participate in the two-year "experiment." During the first year, the institutions developed the performance measures; during the second, they compiled data on those measures. In developing their measures, the institutions were to pay special attention to the following questions:[5]

- What was the institution's mission? (the need to sharpen definitions)
- What indicators best measured performance toward this mission? (the need for measures congruent to the institution's mission)

- Could these indicators:
  --be objective and measurable? (the need for uniformity)
  --be comparable to similar institutions? (the need for equity)
  --permit longitudinal analysis? (the need to measure change over time)

So the responsibilities would be clear, the Commission negotiated a contract with the institutions in order to implement the pilots.

The Commission also circulated documents to focus the debate. Four authors collaborated on The Competent College Student, a controversial statement describing achievements expected of all degree candidates. The ensuing criticism prompted two campuses to draft their own statements on degree competencies, and they received a grant from the Commission for these efforts. Further, the Commission appointed a National Advisory Panel and a State Panel to guide planning, test ideas, and evaluate progress. The National Panel advised that two professionals outside Tennessee and prominent in higher education, Professors Fred Harcleroad and Cameron Fincher, be appointed as permanent evaluators. The framework for all activity was leadership from E. Grady Bogue, Associate Director of the Tennessee Commission and director of the performance project. Bogue's counterparts on the campuses were full-time project directors. In total, thousands of hours were invested at all levels.

In 1977, each pilot campus reported its performance measures. Perhaps most striking was the variety of approaches: some developed institutional tests for students, some relied on national examinations, some worked with accrediting organizations, some emphasized questionnaires. The report by the Tennessee Technological University typifies the range of efforts:

> Tennessee Technological University [enrolls] approximately 6,500 FTE students [and has] a range of undergraduate and graduate programs, but with historic emphasis on science and engineering (including a doctoral program in engineering). Extensive faculty involvement was established through a program of "faculty associates," and 90% of the faculty participated in the goals identification exercise. Three categories of data--extra-institutional standardized tests, student and alumni surveys, and institutional activity data--were used to assess the performance of a representative sample of seniors on general education goals of communication, knowledge of history and social/behavioral science, understandings of science and technology, problem solving skills and preparation for further study. . . . Student performance was above national and state referent groups on the ACT College Outcomes Measures Project battery.

> Change scores for students on the ACT examination were also significant. Locally developed student and alumni surveys and other institutional data confirmed positive growth on goals. The university also has an ongoing evaluation of its teacher education program which was linked to this effort.[6]

Rather than establishing a single performance measure, the value of the pilots was their test of a process. Specifically, they tested:

a. the willingness of campus personnel to involve themselves in performance assessment;

b. the ability of a campus to express its own educational uniqueness;

c. the ability of campus leaders to involve faculty and to elevate concern for performance assessment;

d. the benefits of performance data to the faculty; and

e. the potential for developing a partnership between the State and the institutions.[7]

Although the Tennessee Commission concluded that "not all projects achieved to the level desired"[8] nor was the process wholly successful, the second phase was initiated in 1978.

Phase Two: Funding the Instructional Evaluation Schedule

This phase implemented the performance concept for <u>all</u> institutions by establishing it within the state's budget formulas. After the pilots, the Commission staff developed an Instructional Evaluation Schedule which, when completed by the institutions, provided a profile for funding. The Schedule contained five variables which, theoretically, permitted the evaluation to be sensitive to the diverse characteristics of the institutions.

TENNESSEE'S INSTRUCTIONAL EVALUATION SCHEDULE
USED TO CALCULATE EACH INSTITUTION'S PERFORMANCE FUNDING RATIO, 1979-80

Performance Variable	Maximum Points	Method of Measurement
Proportion of Eligible Academic Programs Accredited	20	Institution has less than 75% of eligible programs accredited (0 points); 75-90% accredited (10 points); 90-99% accredited (15 points); All eligible programs accredited (20 points)
Performance of Graduates on a Measure of Specialized or Major Field Outcomes	20	Institution has assessed performance of a representative sampling of graduates in one or more of its major programs within last 3 years (5 points); assessed representative sampling in the majority of programs within 3 years (10 points); assessed performance of representative sampling of graduates within past three years and can demonstrate that the performance of its graduates equal or exceed performance of graduates from similar institutions in majority of these fields (12-20 points)
Performance of Graduates on a Measure of General Education Outcomes	20	Institution has assessed performance of a representative sampling of graduates on a pilot or one-time basis during last three years (5 points); on-going program to assess performance and has data available for more than one class during last 3 years (10 points); has assessed performance and can demonstrate that its graduates performed equivalent to graduates from similar institutions (15 points); has assessed performance and can demonstrate that graduates performed above graduates of similar institutions (20 points)

Performance Variable	Maximum Points	
Evaluation of Institutional Programs and Services by Enrolled Students, Recent Alumni, Community & Employers	20	Institution has, for any year in past three, conducted a survey of one referent group and can report results for survey of graduates for one or two academic fields (5 points); survey of two or more referent groups for one or two academic fields (10 points); survey of one referent group with application to entire institution (15 points); survey of two or more referent groups with application to entire institution (20 points)
Peer Evaluation of Academic Programs	20	Institution conducted a formal evaluation of at least two major programs during last three years using team of scholars from other institutions outside the state or practicing professionals within a field (5 points); conducted at least 5 evaluations within last 5 years as part of ongoing program of peer review (6-15 points); demonstration that one or more of its academic programs enjoy a favorable peer reputation outside the state (15-20 points)

Source: Tennessee Commission for Higher Education, "Allocation of State Funds on a Performance Criterion," pp. 61-65.

After each institution's total points were calculated by the Commission staff or by an external evaluation team, these points were divided by 100 to establish the institution's percentage "rating." This rating was then multiplied by a dollar amount equal to 2 percent of the institution's projected Educational and General Budget, which was the highest possible amount available to fund the performance measures. A sample of the results of this process for 1979-80 are displayed below.

TENNESSEE'S INSTRUCTIONAL EVALUATION SCHEDULE
APPLIED TO TWO PERCENT OF EACH INSTITUTION'S EDUCATIONAL AND GENERAL FUNDS
TO DERIVE THE 1979-80 RECOMMENDED IMPROVEMENT FUNDS
(Selected Tennessee Institutions)

Institution	Instructional Evaluation Schedule						1979-80 Educational & General Funds (estimated)	1979-80 Improvement Funds Possible (2%)	1979-80 Improvement Funds Recommended
	Eligible Programs Accredited	General Education Outcomes	Specialized Field Outcomes	Senoent, Alumni Employer Opinions	Peer Evaluation	TOTAL			
East Tennessee State	10	0	0	20	10	40	$15,035,900	$300,718	$120,122
Tennessee State Univ.	14	0	5	10	5	34	$15,011,800	$300,236	$102,380
Chattanooga State Community College	16	0	5	15	0	36	$ 4,259,700	$ 85,194	$ 34,930
Tennessee Technological University	17	20	5	20	5	67	$12,244,400	$244,888	$165,415
Motlow State Community College	20	0	5	0	0	25	$ 2,044,300	$ 40,886	$ 10,222
Tri-Cities State Technical Institute	0	0	0	0	0	0	$ 1,514,900	$ 30,298	$ 0

Source: Tennessee Higher Education Commission, "Allocation of State Funds on a Performance Criterion," pp. 70-71.

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After publishing the results of the performance measures, the Commission staff recommended appropriations of $2 million out of a possible $4 million statewide, but the points awarded under the Schedule ranged from 0 to a high of 67.[9] Later, the staff asked the institutions to suggest improvements. Some criticisms were procedural: not enough consultation or too hurried a time for determining budgets. Some criticism involved the measures themselves: the need for more appropriate indicators for two-year colleges and graduate institutions. Some criticisms were substantive: the financial investment needed for the evaluation activities was far greater than the dollar return on the Instructional Evaluation Schedule. Bluntly, some suggested that the entire endeavor ironically drained resources "to evaluate quality when existing funding levels were not sufficient to produce quality in the first place."[10]

Until 1982, the Commission changed the system little, preferring to gain experience over several years before rearranging things drastically. Then, in August 1982, the Commission's staff proposed different variables for the Instructional Evaluation Schedule for the Fall 1983. These new variables "are in the direction of greater objectivity, increased emphasis on the quality of the evaluation product rather than the evaluation process, and greater flexibility of application to the different types of institutions."[11]

Specifically, the new variables emphasize objective tests and placement of graduates and lessen the importance of evaluation by students, alumni, employers, or educational peers. The following table highlights these changes:

THE INSTRUCTIONAL EVALUATION VARIABLES OF 1979 COMPARED TO THOSE RECOMMENDED FOR 1983

The 1979 Schedule	Points Possible in 1979	Points Possible in 1983	The 1983 Schedule
The Proportion of Eligible Academic Programs Accredited	20	25	Program Accreditation
Performance of Graduates on a Measure of Specialized or Major Field Outcomes	20	30	Program Field Evaluation A. Externally Validated Test, Locally Developed or Peer Review (20 Pts) B. Improved Programs or Programs of Exceptional Quality (20 Pts)
Performance of Graduates on a Measure of General Education Outcomes	20	40	Institution-wide Education Outcomes A. General Ed. Outcomes (20 pts) B. Placements in Vocational Fields (20 Pts)
Evaluation of Programs by Students, Recent Alumni, and Employers	20	5	Instructional Improvement Based on Referent Group Survey (students, alumni, community leaders)
Peer Evaluation of Academic Programs	20	5	Planning for Instructional Program Improvement (submitting a plan with certain features)

The Tennessee Experiment: A Critique

The formal features of Tennessee's experiment with performance funding are extremely sound. The Tennessee Commission developed its projects through a long and patient process which actively involved state officials, state educational staff, institutional administrators, faculty, independent advisory boards, and professional evaluators. This "Partnership Model" is crucial for the success of any enterprise which reaches directly into the educational process. The use of documents to focus planning and spark debate was a wise choice. The actual performance measures showed admirable variety and reflected a concern with the individual missions and circumstances of the campuses. Performance funding can serve to further stratify a state's institutions by insuring that "the rich get richer and the poor get poorer," [11] and Tennessee tried hard to avoid this. In addition, funds provided under the Instructional Evaluation Schedule are additions to each institution's budget, not amounts taken from them. The significant expense of documenting, refining, and applying the performance measures suggests that the state should be willing to accept it as a major component of the formula, one rewarding enough to justify the extra efforts of the institutions.

Is the Tennessee experiment a success so far? Narrowly, this can be answered by reference to the original objectives of the performance measures, as defined by state officials and educators:

a. to sharpen institutional mission;

b. to complement the enrollment-based formula;

c. to design an objective means of measuring educational outcomes;

d. to measure the educational "value added" by each institution;

e. to promote instituional excellence without competition.

The record is mixed for achieving these objectives.

From all the reports and conferences on this project, it is safe to conclude that the process has helped sharpen institutional mission by focusing attention on educational processes, it has complemented the general formula, and it is the most prominent effort nationally to measure educational outcomes for extra dollars from the State. However, none of the performance variables in the 1979 Instructional Evaluation Schedule directly measured "value-added" in the sense of the improvement of individuals over time within the educational system. Also, competition among institutions is certainly fostered

by those variables which added points if an institution's graduates or programs outranked the performance at other institutions, even when the competition is only among institutions with similar missions. Overall, however, the results of the Tennessee experiment should be considered a qualified success in reaching its objectives, especially considering the obstacles.

But two larger questions come to mind: Is performance funding going to replace existing formulas throughout the nation? Probably not. The success of performance funding rests squarely on a state's objectives. If the state intends to increase faculty productivity or to improve the instruction directly through performance funding, its efforts will likely fail. For these objectives, the Tennessee experience shows that performance funding would be an expensive and--at best--an indirect means.

Shouldn't systematic evaluation of the sort rewarded in Tennessee occur already in institutions of higher education? Ideally so, but most state formulas do not provide resources for such efforts and the institutions would be hard pressed to divert resources on any large scale. Presumably, the formulas could add funds for evaluations which might parallel the efforts in Tennessee which is, with all the jargon removed, really a categorical program for promoting evaluation, surely an important state policy.

From my perspective, performance funding as implemented in Tennessee is not a panacea which directly links dollars to educational achievements. Rather, it is best understood as a way to institutionalize introspection through the state budget.

FOOTNOTES

1. Oscar T. Lenning, Y.S. Lee, S.S. Micek, and A.L. Service, A Structure for the Outcomes of Postsecondary Education (Boulder, NCHEMS, 1977). The best survey of literature on "educational outcomes" is contained in Oscar T. Lenning, Previous Attempts to Structure Educational Outcomes and Outcome Related Concepts: A Compilation and Review of the Literature (Boulder, NCHEMS, 1977).

2. Ibid. pp. 6-7. E.G. Bogue, "Linking State Funding and Instructional Performance," in Financial Measures Project, National Association of College and University Business Officers, September 1979, p. 23.

3. Tennessee Higher Education Commission, Allocation of State Funds on a Performance Criterion: The Performance Funding Project of the Tennessee Higher Education Commission (Nashville, 1979), pp. 2-6.

4. Ibid. p. 41.

5. Ibid., p. 51

6. Ibid., p. 27.

7. Ibid., p. 38

8. Ibid., p. 39.

9. E. Grady Bogue, "Allocation of Public Funds on Instructional Performance/Quality Indicators," International Journal of Institutional Management in Higher Education, vol. 6, no. 1 (March 1982), p. 39.

10. Tennessee Higher Education Commission, Allocation of State Funds, p. 74. See also The Tennessee Higher Education Commission, The Report of the Performance Funding Project (Nashville, 1980), pp. 70-77.

11. Memorandum from Wayne Brown to Members of the Tennessee Higher Education Commission, "Proposed Revision to the Instructional Evaluation Variables," August 24, 1982, p. 1.